Docket:	:	A.13-11-003
Exhibit Number	:	ORA-04
Commissioner	:	Peevey
ALJ	:	Darling/Dudney
Witness	:	Renaghan

OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations for Southern California Edison Company General Rate Case Test Year 2015

Cost Escalation

San Francisco, California
August 4, 2014

TABLE OF CONTENTS

COST ESCALATION

I. INTRODUCTION

This exhibit presents the analyses and recommendations of the Office of Ratepayer Advocates (ORA) regarding Southern California Edison Company's (SCE) forecasts of labor and non-labor and capital-related cost escalation for 2013, 2014 and Test Year (TY) 2015. Escalation is the rate of inflation for the costs of the utility's purchase of labor, materials and capital-related items.

ORA's recommendations are summarized in Section II. Sections III, IV and V discuss ORA's and SCE's historical and forecast estimates of labor, non-labor and capital escalation rates, respectively.

II. SUMMARY OF RECOMMENDATIONS

ORA and SCE developed labor and non-labor escalation rates for Steam Production, Nuclear Production, Hydro Production, Electric Transmission, Electric Distribution, Customer Accounts, Customer Service and Information, Sales and Administrative and General. The results are reported in Tables 4-1 and 4-2. Both ORA and SCE relied upon forecasts taken from the IHS Global Insight Power Planner. ORA's forecasts rely upon the Fourth Quarter 2013 IHS Global Insight Power Planner while SCE's forecasts are drawn from the Fourth Quarter 2012 IHS Global Insight Power Planner.

ORA has adopted SCE's labor, non-labor and capital-related escalation methodology. ORA's labor, non-labor and capital escalation rates differ from SCE's labor, non-labor and capital-related escalation rates because ORA based its forecast on a more recent Global Insight Power Planner forecast. ORA recommends the Commission adopt its labor, non-labor and capital escalation rates because ORA's estimates are based on more recent forecast information.

Finally, ORA recommends that the labor, non-labor, and capital escalation rates be updated in September in accordance with the Commission's adopted General Rate Case plan.

ORA's Recommendations

- For 2013, 2014, and TY 2015 ORA forecasts labor escalation rates of 2.79%, 2.31 % and 2.59 %, respectively. SCE forecasts slightly higher escalation rates of 2.79 %, 2.36 % and 2.53 %. ORA's annual escalation rates translate to a compound growth rate of 7.89 % for TY 2015 while SCE annual rates translate to a compound growth rate of 7.88 % for TY 2015.
- For steam generation non-labor escalation ORA forecasts 0.98 % for 2013, 1.45 % for 2014 and 2.25 % for 2015. SCE forecasts non-labor escalation rates of 0.90 %, 1.74 % and 2.28 %, for 2013, 2014 and 2015, respectively. On a compound basis ORA recommends a 4.73 % escalation rate for this category while SCE recommends a 5.00 % escalation rate for TY 2015.
- For hydro generation ORA forecasts annual escalation rates of 0.22 %, 1.50 % and 1.02 % for 2013, 2014 and 2015, respectively. These annual rates result in a TY 2015 compound escalation rate of 3.78 %. SCE forecasts escalation rates of 0.15 % for 2013, 1.74 % for 2014 and 2.28 % for 2015. SCE recommends a compound escalation rate of 3.58 percent for TY 2015.
- For other generation, ORA recommends an annual escalation rate of 1.49 percent for 2013, 2.32 % for 2014 and 2.27 % for 2015. Compounding these annual rates results in a compound escalation rate of 6.20 percent for 2015. SCE recommends a compound escalation rate of 7.05 % for 2015. This compound rate is based on annual escalation rates of 1.72 %, 2.38 % and 2.79 % for 2013, 2014 and 2015.
- For electric distribution, ORA recommends an escalation rate of 1.24 % for 2013, 1.28 % for 2014 and 1.93 % for 2015. For TY 2015 ORA recommends a compound escalation rate of 4.51 %. SCE recommends annual escalation rates of 0.72 %, 1.53 % and 1.96 %, respectively for 2013, 2014 and 2015. On a compound basis SCE recommends a TY escalation rate of 4.26 %.

- For electric transmission ORA recommends, respectively, non-labor escalation rates of 1.24 %, 1.28 % and 1.93 percent for 2013, 2014 and 2015. The compound recommended rate for 2015 is 5.42 %. SCE recommends annual escalation rates of 1.51 %, 1.98 % and 2.41 %, respectively, for 2013, 2014 and 2015. These annual rates result in a compound rate of 6.02 %.
- For customer accounts ORA recommends escalation rates of 2.17 % in 2013, 1.56 % in 2014 and 1.72 % in 2015. These annual rates yield a compound rate of 5.55 % in TY 2015. SCE recommends non-labor escalation rates of 1.00 % in 2013, 1.56 % in 2014 and 1.49 % in 2015 for a compound rate of 4.11 % in 2015.
- For customer service and information ORA recommends annual escalation rates of 1.46 %, 1.20 % and 1.72 %, respectively, for 2013, 2014 and TY 2015. On a compound basis ORA recommends a compound escalation rate of 4.40 % in 2015. SCE recommends annual escalation rates of 0.82 % in 2013, 1.48 % in 2014 and 1.50 % in 2015. For TY 2015, SCE recommends a compound non-labor escalation rate of 3.84 %.
- For sales expense, ORA recommends, respectively, annual escalation rates of 1.90 %, 1.19 % and 2.18 % for 2013, 2014 and 2015. These annual rates yield a compound escalation rate of 5.35 % for 2015. SCE recommends annual escalation rates of 1.29 % in 2013, 2.01 % in 2014 and 1.87 % in 2015. These annual rates result in a compound escalation rate of 5.26 % in TY 2015.
- For administrative and general, ORA forecasts annual escalation rates of 2.26 % in 2013, 2.41 % in 2014 and 2.99 % in 2015. For TY 2015 ORA recommends a compound escalation rate of 7.87 %. SCE recommends a compound escalation rate of 8.13 percent in TY 2015. This compound rate is the product of annual escalation rates of 2.29 % in 2013, 2.72 % in 2014 and 2.91 % in 2015.

ORA and SCE also developed capital-related escalation rates for Steam Production, Nuclear Production, Hydro Production, Other Production, Electric Transmission, Electric Distribution, Installed Meters and General Plant. Unlike, Steam Production, Nuclear Production, Other Production, Transmission, Distribution, and Installed Meters, the Common Plant index is a company-specific index.[1] The results are reported in Tables 4-3 and 4-4. Both ORA and SCE relied upon forecasts taken from the IHS Global Insight Power Planner. ORA's forecasts rely upon the Fourth Quarter 2013 IHS Global Insight Power Planner while SCE's forecasts are drawn from the Fourth Quarter 2012 IHS Global Insight Power Planner.

- For Steam Production, ORA forecasts annual escalation rates of 4.49 % for 2013, 1.01 % for 2014 and 2.01 % for TY 2015. These annual estimates yield a compound escalation rate of 7.67 % for 2015. SCE recommends annual escalation rates of 1.24 %, 1.56 % and 2.58 % for 2013, 2104 and 2015, respectively. SCE recommends a compound escalation rate of 5.47 % for TY 2015.
- For Nuclear Generation capital ORA recommends, respectively, annual escalation rates of 5.34 %, 1.50 % and 2.13 % for 2013, 2014 and 2015. The recommended compound rate for 2015 is 9.20 %. SCE recommends annual escalation rates of 1.65 % for 2013, 2.16 % for 2014 and 2.73 % for 2015. Compounding SCE annual escalation rates yields a compound escalation rate of 6.69 % for TY 2015.
- For Hydro Generation ORA recommends annual escalation rates of 3.29 % for 2013, 2.13 % for 2014 and 2.15 % for TY 2015. The compound rate for TY 2015 is 7.76 %. SCE recommends, respectively, annual escalation rates of 2.07 %, 2.45 % and 2.78 % for 2013, 2014 and 2015. Taken together, this yields a recommended compound rate of 7.48 % for TY 2015.

[1] The derivation of this index is discussed in greater detail in Section V of this report.

- For Other Production Plant capital escalation ORA recommends annual escalation rates of 3.31 %, 1.60 % and 2.21 % for 2013, 2014 and 2015. Over the 2013-2015 period this yields a compound escalation rate of 7.28 % for 2015. SCE recommends an annual escalation rate of 3.25 % in 2013, 2.21 % in 2014 and 2.39 % in 2015, for a compound escalation rate of 8.05 % in 2015.
- ORA recommends Transmission Plant escalation rates of 2.32 % in 2013, 1.72 % in 2014 and 1.93 % in 2015. The compound escalation rate for TY 2015 is 6.09 %. SCE recommends annual Transmission Plant escalation rates of 1.62 %, 2.24 % and 2.67 %, respectively, for 2013, 2104 and 2015. These annual escalation rates yield a compound rate of 6.67 %.
- Turning to Distribution Plant, ORA recommends an annual escalation rate of 2.39 % for 2013, 1.53 for 2014 and 2.25 % for TY 2015. Taken together the annual rates yield a compound rate of 6.29 % for TY 2015. SCE recommends a compound Distribution Plant escalation rate of 6.99 % for TY 2015. This rate is based on annual escalation rates of 2.18 % in 2013, 2.49 % in 2014 and 2.12 % in TY 2015.
- ORA's proposed annual escalation rates for the plant category Installed Meters are, respectively, 3.55 %, 5.05 % and 3.11 % for 2013, 2014 and 2015. Compounding these annual rates yields a compound escalation rate of 12.17 % in TY 2015. SCE recommends annual escalation rates of 2.73 % in 2013, 5.62 % in 2014 and 2.08 % in 2015, for a compound rate of 10.76 % in TY 2015.
- In the case of General Plant, ORA recommends annual escalation rates of 1.75 % in 2013, 2.62 % in 2014 and 2.19 % in 2015. Compounding these annual rates yields a compound TY escalation rate of 9.59 % in TY 2015. SCE, on the other hand, recommends an annual escalation rate of 1.87 % for 2013, 2.23 % for 2014 and 2.28 % for 2015. Taken together these annual escalation rates yield a compound rate of 6.59 % for TY 2015.

Table 4-1 compares ORA's and SCE's forecasts of labor and non-labor escalation rates for 2013 through 2015:

Table 4-1
Comparison of ORA's and SCE's Forecasts of
2013-2015 Labor and Non-Labor Annual Escalation Rates

Description	ORA Recommended			SCE Proposed[2]		
	2013	2014	2015	2013	2014	2015
Labor	2.79 %	2.31 %	2.59 %	2.79 %	2.36 %	2.53 %
Non-Labor						
Fossil Generation	0.98 %	1.45 %	2.23 %	0.90 %	1.74 %	2.28 %
Hydro Generation	0.22 %	1.50 %	2.02 %	0.15 %	1.74 %	2.28 %
Nuclear Generation	0.85 %	1.57 %	2.26 %	1.06 %	1.90 %	2.22 %
Other Generation	1.49 %	2.32 %	2.27 %	1.72 %	2.38 %	2.79 %
Electric Distribution	1.24 %	1.28 %	1.93 %	0.72 %	1.53 %	1.96 %
Electric Transmission	1.37 %	1.91 %	2.05 %	1.51 %	1.98 %	2.41 %
Customer Accounts	2.17 %	1.56 %	1.72 %	1.00 %	1.56 %	1.49 %
Customer Service & Information	1.46 %	1.20 %	1.72 %	0.82 %	1.48 %	1.50 %
Sales	1.90 %	1.19 %	2.18 %	1.29 %	2.01 %	1.87 %
Administrative & General (excl. Health)	2.26 %	2.41 %	2.99 %	2.29 %	2.72 %	2.91 %

[2] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, p. 71.

Table 4-2 compares ORA's and SCE's forecasts of labor and non-labor compounded escalation factors for 2012 through 2014:

Table 4-2
Comparison of ORA's and SCE's Forecasts of
2013-2015 Labor and Non-Labor Compounded Escalation Factors
(2012 = 1.0000)

Description	ORA Recommended			SCE Proposed[3]		
	2013	2014	2015	2013	2014	2015
Labor	1.0279	1.0516	1.0789	1.0279	1.0522	1.0788
Non-Labor						
Fossil Generation	1.0098	1.0245	1.0473	1.0090	1.0266	1.0500
Hydro Generation	1.0022	1.0172	1.0378	1.0015	1.0165	1.0358
Nuclear Generation	1.0085	1.0243	1.0474	1.0106	1.0298	1.0527
Other Generation	1.0149	1.0384	1.0620	1.0172	1.0414	1.0705
Electric Distribution	1.0124	1.0254	1.0451	1.0072	1.0226	1.0426
Electric Transmission	1.0137	1.0330	1.0542	1.0151	1.0352	1.0602
Customer Accounts	1.0217	1.0377	1.0555	1.0100	1.0258	1.0411
Customer Service & Information	1.0146	1.0167	1.0440	1.0082	1.0231	1.0384
Sales	1.0190	1.0311	1.0535	1.0129	1.0333	1.0526
Administrative & General (Excl. Health)	1.0226	1.0473	1.0787	1.0229	1.0507	1.0813

Table 4-3 below compares ORA's and SCE's forecasts of annual capital-related escalation rates while Table 4-4 reports ORA's and SCE's forecasts of capital-related escalation rates on a compound basis.

[3] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, p. 72.

Table 4-3
Comparison of ORA's and SCE's 2013-2015
Forecasts of Annual Capital Related Escalation

Description	ORA Recommended			SCE Proposed[4]		
	2013	2014	2015	2013	2014	2015
Steam Generation	4.49 %	1.01 %	2.01 %	1.24 %	1.56 %	2.58 %
Nuclear Generation	5.34 %	1.50 %	2.13 %	1.65 %	2.16 %	2.73 %
Hydro Generation	3.29 %	2.13 %	2.15 %	2.07 %	2.45 %	2.78 %
Other Plant	3.31 %	1.60 %	2.21 %	3.25 %	2.21 %	2.39 %
Transmission	2.32 %	1.72 %	1.93 %	1.62 %	2.24 %	2.67 %
Distribution	2.39 %	1.53 %	2.25 %	2.18 %	2.49 %	2.12 %
Meters Installed	3.55 %	5.05 %	3.11 %	2.73 %	5.62 %	2.08 %
General Plant	1.75 %	2.62 %	2.19 %	1.87 %	2.23 %	2.28 %

Table 4-4
Comparison of ORA's and SCE's Forecasts of
2013-2015 Compound Capital Escalation Factors
(2012 = 1.0000)

Description	ORA Recommended			SCE Proposed[5]		
	2013	2014	2015	2013	2014	2015
Steam Generation	1.0449	1.0554	1.0767	1.0124	1.0282	1.0547
Nuclear Generation	1.0534	1.0692	1.0920	1.0165	1.0385	1.0669
Hydro Generation	1.0329	1.0549	1.0776	1.0207	1.0457	1.0748
Other Plant	1.0331	1.0496	1.0728	1.0325	1.0553	1.0805
Transmission	1.0232	1.0408	1.0609	1.0162	1.0224	1.0267
Distribution	1.0239	1.0395	1.0629	1.0218	1.0472	1.0699
Meters Installed	1.0355	1.0879	1.1217	1.0273	1.0850	1.1076
General Plant	1.0551	1.0727	1.0959	1.0162	1.0383	1.0659

[4] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, p. 79.

[5] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, p. 79.

III. DISCUSSION / ANALYSIS OF LABOR ESCALATION

A. SCE Methodology

SCE's historical labor escalation rates are based on company-wide estimates of Average Hourly Earnings (AHE's). AHE's are defined as hourly wages, including overtime, divided by hours worked. Hours worked, in turn, are defined: "as the sum of: (i) straight time hours, (ii) overtime hours multiplied by one and one-half, [and] (iii) double time hours multiplied by two."[6] These historic AHE's are then converted to indexes with a base value of one in 2012.

For the 2013-2015 forecast period, SCE separates its employees into four categories, Physical Workers, Clerical Workers, Managers and Administrators, and Professional and Technical Workers. Wage increases for each group are coupled with indexes taken from the Global Insight Power Planner. Wage increases for the Physical and Clerical workforce are linked to the Global Insight Power Planner variable CEU4422110008, AHE Electric Power Generation, Transmission, and Distribution workers. For a portion of the forecast period wage increases for these workers are determined by collective bargaining agreements between SCE and its Unions. SCE explains that: "For 2013 and 2014, SCE's represented employees will receive a wage increase of 2.91 and 2.75 percent, respectively, based on the average of the two collective bargaining agreements for the International Brotherhood of Electrical Workers (IBEW) and the Utility Workers Union of America (UWUA)."[7] For these years, the union determined wage increases are used in place of the Global Insight Power Planner Index CEU442110008.

For Managers and Administrators, wage increases are coupled with the Global Insight Power Planner Index, ECIPWMBFNS, Employment Cost Index, Managers and Administrators. Wage increases for employees in the Physical and Technical category are coupled with the Global Insight Power Planner Index,

[6] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, p. 74.

[7] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, p. 74.

ECIWSPWP&TNS, Employment Cost Index, Wages and Salaries, Technical and Professional workers.

To arrive at company-wide forecast wage increases, the wage increases for the four categories are weighted by the share of total wages represented by each employee category.

Table 4-5 [8]
SCE Employee Categories and Share of Wages

Employee Category	Global Insight Variable	Global Insight Description	Share of Total Wages
Physical Workers	CEU4422110008	AHE Electric Generation, Transmission & Distribution Workers	24.066 %
Clerical Workers	CEU4422110008	AHE Electric Generation, Transmission & Distribution Workers	8.598 %
Managers & Administrators	ECIPWMBFNS	Employment Cost Index Managers & Administrators	25.753 %
Professional & Technical Workers	ECIWSPWP&TNS	Employment Cost Index Professional & Technical Workers	41.603 %
Total			**100.00 %**

For the 2013 – 2015 forecast period, SCE's methodology results in modest wage increases of 2.79 % for 2013, 2.36 % for 2104 and 2.53 % for 2015.

B. ORA Methodology

ORA has adopted SCE's escalation methodology. In SCE's last General Rate Case (GRC) filing, ORA recommended substituting SCE's union negotiated wage increases with the Global Insight Index CEU4422110008. The Commission, however, rejected this approach.[9] In this proceeding ORA has incorporated SCE's union negotiated wage increases of 2.91 % and 2.75 % for 2013 and 2014 along with 2015 2.75 % wage increase negotiated between SCE and the UWUA for 2015. ORA notes that the fourth quarter 2013 Global Insight Power Planner forecasts nationwide wage increases for Electric Power Generation, Transmission, Distribution

[8] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, p. 76.

[9] D.12-11-051, *mimeo*, p. 598.

workers of 2.50 % in 2014 and 2.30 % in 2015. In short, SCE's union negotiated wage increases for the 2013 – 2015 forecast horizon are very similar to the most recent Global Insight projections for this employee category. ORA's forecasts of ECIPWMNFNS and ECIWSPWP&TNS are based on the fourth quarter Global Insight Power Planner forecast.

ORA forecasts annual labor escalation rates of 2.79 % for 2013, 2.31 % in 2014 and 2.59 % for TY 2015.

IV. DISCUSSION / ANALYSIS OF NON-LABOR ESCALATION

A. SCE Methodology

SCE's historical and forecast non-labor escalation rates are based on indexes taken from the IHS Global Insight Power Planner. The indexes in the Global Insight Power Planner parallel the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts. Table 4-6 shows the functional expense categories and the Global Insight Power Planner index associated with each functional category.

Table 4-6[10]
Southern California Edison O&M Expense Categories and Global Insight Power Planner Indexes

O&M Expense Category	Global Insight Power Planner Index
Steam Generation	JEFOMMS
Nuclear Generation	JENOMMS
Hydro Generation	JEHOMMS
Other Production	JEOOMS
Transmission	JETOMMS
Distribution	JEDOMMS
Customer Accounts	JECAOMS
Customer Service & Information	JECSIOMS
Sales	JESALOMS
Administration and General	JEADGOMMS
Administrative and General Excluding Health Care	JEADGOMMS_H

[10] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, Cost Escalation Workpapers, p. 3.

With the exception of JEADGOMMS_H, A&G escalation, excluding health care, forecasts of the indexes reported in Table 4-6 were taken directly from the Fourth quarter 2012 IHS Global Insight Power Planner.

The index JEADGOMMS_H is a specially constructed variable designed to remove the impact of health care cost escalation from A&G expenses. SCE explains that: "Because SCE treats health care cost trends separately, the effect of health care changes is removed from the non-labor escalation rates shown in this chapter. This was done by requesting adjusted A&G non-labor or escalation rates from Global Insight…that specifically exclude the effect of health care cost escalation."[11] In the FERC Uniform System of Accounts health care costs are included in Account 926. The Global Insight variable for Account 926 is JEADG926MS. First, Global Insight revised the index JEADG926MS to remove the impact of health care costs. The final step was to reweight the Global Insight indexes which proxy A&G operations costs. The two sets of weights, one including health care costs, and the other, excluding health care costs are reported in Table 4-7.

Table 4-7[12]
A&G Operational Cost Weights

Index	Weight	Weight
	Including Health Care Costs	**Excluding Health Care Costs**
JEADG921MS	0.194	0.149
JEADG923MS	0.140	0.108
JEADG924MS	0.067	0.052
JEADG925MS	0.117	0.090
JEADG926MS	0.199	0.383
JEADG927MS	0.040	0.031
JEADG928MS	0.047	0.036
JEADG9301MS	0.007	0.005
JEADG9302	0.137	0.040
Total	**1.000**	**1.000**

[11] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, p. 77.

[12] Derived from Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, Cost Escalation Workpapers.

B. ORA Methodology

ORA relied upon the same non-labor escalation methodology as did SCE. ORA, however, relied upon a more recent IHS Global Insight Power Planner forecast than did SCE. Specifically, ORA relied upon the fourth quarter 2013 IHS Global Insight Power Planner while SCE's forecast was taken from the earlier fourth quarter 2012 IHS Global Insight Power Planner.

V. DISCUSSION / ANALYSIS OF CAPITAL ESCALATION

A. SCE Methodology

SCE presents capital related escalation rates for the following plant categories: Steam Generation, Nuclear Generation, Hydro Generation, Transmission Plant, Distribution Plant, Installed Meters, and General Plant. With the exception of General Plant, historical escalation rates are based on the Handy-Whitman Construction Cost Indexes for the Pacific Region and forecasted plant escalation rates are taken from the fourth quarter IHS Global Insight Power Planner. Table 4-8 reports the plant types, the Handy-Whitman Indexes, and the IHS Global Insight Power Planner index variables.

Table 4-8[13]
Plant Escalation Categories and Variable Names

SCE Variable	Global Insight Variable	Global Insight Variable Name	Region
Steam Generation	Total Steam Production Plant	JUEPPF_PCF	Pacific
Nuclear Generation (SONGS)	Total Nuclear Production Plant	JUEPPN_PCF	Pacific
Hydro Generation	Total Hydraulic Production Plant	JEUEPPH_PCF	Pacific
Other Generation	Total Other Production Plant	JUEPPO_PCF	Pacific
Transmission	Total Transmission Plant	JUEPT_PCF	Pacific
Distribution	Total Distribution Plant	JUEPD_PCF	Pacific
Installed Meters (CSBU Distribution)	Total Distribution Plant	JUEPD_PCF	Pacific
Nuclear Palo Verde	Total Nuclear Production Plant	JUEPPN_PLA	Plateau
General Plant	SCE Variable	na	na

The General Plant capital cost index is an SCE constructed variable. The component indexes and their relative weights are reported in Table 4 - 9.

[13] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, Cost Escalation Workpapers, p. 14.

Table 4 – 9[14]
SCE General Plant Escalation Index

Global Insight Variable	Description	Weight
JPGDP	Chained Price Index Gross Domestic Product	3.34 %
JPIFNREEMISCB	Chained Price Index Miscellaneous Equipment	25.69 %
JPIFNRESXF	Chained Price Index Nonresidential Construction of Nonfarm Buildings	30.06 %
WPI11	Producer Price Index Machinery & Equipment	1.32 %
WPI12	Producer Price Index Furniture & Household Durables	38.12 %
WPI14	Producer Price Index Transportation Equipment	1.47 %
Total		**100.00 %**

B. ORA Methodology

For capital escalation ORA has adopted SCE's methodology. As in the case of labor and non-labor escalation, ORA's results reflect the use of a more recent IHS Global Insight Power Planner forecast. Specifically, for Steam Generation, Hydro Generation, Nuclear Generation, Palo Verde, Other Generation, Transmission, and Distribution ORA relied upon the fourth quarter 2013 IHS Global Insight Power Planner. For the General Plant index ORA relied upon the April 2014, IHS Review of the U.S. Economy.

C. Palo Verde Escalation

SCE has a partial financial stake in the Palo Verde Nuclear Generating Station and recently sold its share of the Four Corners Generating Station. Both plants are operated by Arizona Public Service (APS). To escalate the labor and non-labor costs associated with these plants SCE develops blended labor and non-labor escalation rates for these plants. The labor and non-labor weights are based on the relative shares of labor and non-labor expenses associated with SCE's share of

[14] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, Cost Escalation Workpapers, p. 17.

operating costs for these plants. As SCE explains: "The current labor-weighting for Palo Verde is 57.06%; the non-labor weighting is 42.94%"[15]

Table 4-10 compares ORA's and SCE's weighted escalation rates for Palo Verde.

Table 4 – 10
Palo Verde Weighted Escalation Rates

Year	Index	Per Cent Change	Index	Per Cent Change[16]
	DRA	DRA	SCE	SCE
2008	0.902	3.83 %	0.902	3.83 %
2009	0.909	0.80 %	0.909	0.80 %
2010	0.938	3.19 %	0.938	3.19 %
2011	0.977	4.16 %	0.977	4.16 %
2012	1.000	2.32 %	1.000	2.32 %
2013	1.020	1.96 %	1.018	1.79 %
2014	1.031	1.12 %	1.040	2.16 %
2015	1.056	2.43 %	1.065	2.40 %
2016	1.086	2.82 %	1.093	2.62 %
2017	1.115	2.68 %	1.120	2.52 %

For the forecast period 2013-2015, ORA forecasts a Palo Verde blended escalation rate of 1.96 % in 2013, 1.12 % in 2014 and 2.43 % in TY 2015. On a compound basis, ORA recommends a blended Palo Verde escalation rate of 5.6 %. SCE forecasts blended escalation rates of 1.79 %, 2.16 % and 2.40 %, respectively, for 2013, 2014 and 2015. For TY 2015, SCE recommends a compound escalation rate of 6.50 %.

[15] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, pp. 76-77.

[16] Ex. SCE-10, Results of Operations, Vol. 1, Ch. VII, p. 73.